The Missing Middle Initiative
A YGL-Global Redesign Initiative

Abstract:

Issue:

The "Missing Middle" refers to the gap in capital in emerging markets, which is larger than microfinance and smaller than traditional institutional financing. In the developed world, this segment of capital exists and supports small-medium sized enterprises (SMEs), but in developing economies it is largely absent, creating a financing hurdle for establishing a robust SME base. The issue of the Missing Middle extends beyond just a lack of capital; and includes the lack of support, infrastructure and overlaying networks of intermediaries, institutions, and investors.

Opportunity:

The Missing Middle presents a unique opportunity for emerging market investors to achieve both competitive financial returns and significant social impact, addressing some of the largest income and wealth gaps faced by developing countries and communities around the world. Closing this funding gap is the next stage of capital development after microfinance, completing the financing food chain throughout a business's life. While microfinance typically does not scale beyond local markets nor aimed at job creation outside an immediate group, small-medium sized capital targets larger and more sustainable economic and social growth opportunities.

Mission:

The purpose of the Missing Middle Initiative is to put a spotlight on the gap in capital in emerging markets, accelerate the momentum of SME Venture Funds, and showcase best practices of fund structures, intermediaries and institutions. At the center of the initiative is an investment philosophy focused on investing in emerging markets and industry sectors that are ready for capital, not just in need, supporting a trade vs. aid strategy and taking a no compromise approach on financial returns and social impact.

Context for Proposal:

Why It Matters:

Establishing a large and robust SME base has a significant positive impact on the economic and social health of countries and is a key driver in developing emerging markets. There is a large gap in the number of SMEs in low-income countries compared to high income countries, and it has resulted in a stark separation between the affluent and the poor, as the middle class segment is minimal. Increasing the number SMEs in emerging markets, builds a middle class and causes poverty elevation, through job creation and sustainable growth. Some of the positive social impacts include an increase in stability both politically and financially, the development of an entrepreneurial spirit and optimism in communities, and the creation of additional resources for living. Along with job creation, some of the other positive economic impacts include robust and stable GDP growth through the diversification of business sectors

and sizes, the promotion of innovation, and the priming for larger investment into SMEs to grow their businesses.

Challenges to Bridging the Gap:

The challenges to bridging the gap of SME's in emerging markets can be outlined when reviewing the obstacles not only for SMEs, but the unique challenges faced by investors, intermediaries and institutions that work with them. While there is a strong correlation between the number of SMEs in a community and the level of access to capital is various forms and sizes, the solution to filling the SME gap is more complex than simply filling the financing gap.

In many emerging markets there is a lack of intermediaries, institutions, and other SMEs to help prepare new businesses for investment. Intermediaries provide invaluable mentorship opportunities, role models, and key introductions, while institutions play a key role in legitimizing industries through market research and developing overlaying networks of investors, intermediaries, and other institutions. There are certainly challenges, but more importantly, there are solutions, and as the obstacles faced by SME's, investors, intermediaries, and institutions are individually addressed and overcome, capital can begin to flow to SME's in emerging markets.

Presentation of the Proposal:

The Missing Middle Initiative plans to create a new innovative structure which will address the challenges and solutions for four key pillars: SMEs, investors, intermediaries, and institutions. The execution of this initiative will focus on putting a spotlight on the missing middle, accelerating the momentum of SME investing and showcasing best practices and success stories in the industry.

The Missing Middle Initiative will start by implementing a strategy of identifying the key players among the four pillars and bring them into a regular discussion on the topic. The Missing Middle Initiative seeks to combine the collection of information with action, and move beyond just a conversation about the issue and take an active role in doing something about it. To achieve this goal, a central document on the topic will be created and an action plan will be developed to establish SME Venture Funds in emerging market regions, and improve the existing intermediaries and institutions. The central document on the Missing Middle will include an in-depth review covering the challenges and solutions of the four pillars, a comprehensive and dynamic directory of those active in the space, and an aggregation of resources to be shared with the global community.

Put a Spotlight on the Missing Middle:

- Present the topic and showcase the initiative on global platforms
- Indentify who the players are of the four pillars and bring them into the discussion
- Create an information center that highlights challenges and solutions, defines the topic, and clarifies the opportunity of financial and social returns

Accelerate the Momentum of SME Venture Funds:

- Connect current champions in the space with each other and attract new active players

- Drive capital to existing SME Venture Funds and establish new SME Venture Funds in Africa, Latin America, Asia and the Middle East

- Support intermediaries and intuitions that help prepare SMEs for investment

Showcase the SME emerging market industry, best practices, and success stories:

- Market and legitimize the industry through reports developed by institutions and case studies from intermediaries

- Present a methodology for organizations to follow, such as innovative fund structures, investment criteria's, expected financial and social returns, due diligence strategies, and the development of local networks and teams

- Showcase successful execution to provide role models for SMEs, investors, and intermediaries

Implementation:

Which champions will/should the proposal have?

J. Skyler Fernandes – COO of The South African Chamber of Commerce in America, and Venture capitalist at Centripetal Capital Partners

Euvin Naidoo – co-President of The South African Chamber of Commerce in America

James Wanjohi – Managing Director; The Branson School of Entrepreneurship

The stakeholders include a number of investors, intuitions and intermediaries:

Investors: i3 Advisors, Acumen Fund, Aureos Capital, InReturn Capital, Root Capital to provide insight into fund structures, strategies, and outlook.

Institutions: Aspen Institute will provide a network of fund managers and help indentify key players in the space.

Intermediaries: Branson School of Entrepreneurship, Business Council for Peace, Echoing Green, Endeavor, and South African Chamber of Commerce in America will provide case study examples and contacts to global SME investors.

How/where can the proposal be show-cased beyond the GRI and the Forum?

The Missing Middle Initiative can be showcased at a number of organizations including the Clinton Global Initiative (CGI), the Aspen Institute through the Aspen Network of Development Entrepreneurs (ANDE), and TED Global. Also, the initiative can be featured at MBA emerging market business conferences, global news related publications, and among financial community forums.